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Chattanooga upgrades tax increment financing policy to add accountability, flexibility and predictability

Tweaks to TIF policy expected to bring rules into line with state law, making it easier to understand while also adding teeth to protect residents

Chattanooga, Tenn. (Wednesday, Nov. 2) — Chattanooga City Council on Tuesday approved a number of enhancements to rules governing tax increment financing (TIF), a tool that allows the city to leverage future tax revenue to pay for public improvements by revitalizing blighted areas.

Broadly, the changes will bring the city rules into line with state rules, while also strengthening the city's ability to protect residents' interests and respond to community needs.

"Our goal was to make the TIF policy predictable and easy to understand, but also to put some teeth into it," said Jermaine Freeman, senior advisor for economic opportunity at the City of Chattanooga. "These changes also improve our ability to administer and regulate TIFs more effectively, providing additional support for the staff who vet, negotiate and implement these economic development tools to help build One Chattanooga."

Tax increment financing is a funding tool used by cities and counties to revitalize blighted properties. As these blighted properties are improved and developed, increasing their taxable value, the city sets aside part of the increase in property tax revenues to help fund public improvements in the area, typically improvements that catalyze the development.

TIFs are typically enacted for a set number of years based on project needs. During this time, all existing property taxes continue to be collected as usual. Of the new taxes that are raised as a result of new development, the full school portion is still collected by Hamilton County. Only a portion of new revenues paid by property owners are set aside to help fund infrastructure and public works.

The changes approved by the City Council align the City's policies with state statutes, specifically regarding public infrastructure, the maximum term of a TIF, and the process for seeking state approval.

The new maximum term of a TIF without seeking an exception will be defined as 20 years, matching the state statute.

The changes also increase the application fee to \$8,000 from \$1,500 previously, and increase the administrative fee levied on the TIF increment from 0.25 percent to 2.5 percent. As an example, the fee on an increment of \$100,000 would rise to \$2,500 from \$250 previously.

As part of the submittal process, applicants will also be asked to disclose whether they are under indictment, have filed for bankruptcy, or are involved in civil or criminal litigation.

The city is also adding a requirement for applicants to sign an affidavit stating that the project can't move forward without the TIF incentive — known as a “but-for” test — and requires documentation justifying the dollar amount and time period of the TIF.

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